

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF NEWAYGO	County NEWAYGO
Audit Date 6/30/05	Opinion Date 11/5/05	Date Accountant Report Submitted to State: 12/9/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

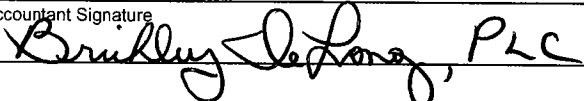
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☒ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) Brickley DeLong, PLC			
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Accountant Signature 		Date 12/9/05	

City of Newaygo
Newaygo County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2005

City of Newaygo

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CITY OF NEWAYGO, MICHIGAN

Management's Discussion and Analysis

The City Manager and staff of the City of Newaygo present to the readers of the City's financial statements this overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. We encourage you to consider the information presented in the financial statements, which begin on page 3, along with the additional information that has been furnished in this letter. To those familiar with the prior year financial statements, or just new to this document, it is important to know that the we are presenting this analysis, along with the financial statements, in a new format prescribed by the provisions of the Governmental Accounting Standards Board Statement 34 (GASB 34).

FINANCIAL HIGHLIGHTS

- The City's net assets total \$14,417,376. This total is comprised of governmental and business-type (water/sewer) activities. The governmental net assets are \$6,964,251 and the business-type net assets are \$7,453,125. The component unit (TIFA/LDFA) net assets (deficits) are (\$2,358,704). (The component units carry a negative net asset due to the fact that these units carry significant debt related to infrastructure assets belonging to the City.)
- Total expenses of all the City's programs were \$2,423,168. The governmental expenses were \$1,558,576 and the business-type expenses were \$864,592. Total component units expenses were \$1,670,668 (which includes \$195,344 of expenses for the Newaygo Carnegie Library).
- Total revenues, including all program and general revenues, were \$4,904,578. Total revenues for governmental activities were \$2,021,038 and business-type activities were \$2,883,540. Total revenues including all program revenues for component unit activities were \$1,998,279.
- In 2003, the City received a federal grant of \$2,800,000 and loans totaling \$2,804,000 through USDA Rural Development for water and sanitary sewer system repairs and improvements. These projects went well and will be finished next year. The City was able to save money on the original projects and complete many other needed projects, as well as purchase new equipment.
- In 2003, the City received a CDBG grant of \$1,016,558 through the Michigan Economic Development Corporation (MEDC) for the beautification and revitalization of downtown. The City special assessed the downtown businesses \$375,000 to help cover project costs. The Newaygo Tax Increment Finance Authority (TIFA) contributed \$500,000 toward the downtown project. This project will be completed next year.
- In 2003, the City received a grant of \$224,702 from the Michigan Department of Transportation (MDOT) for the beautification of the M-37 streetscape in the downtown area. The Newaygo Tax Increment Finance Authority (TIFA) contributed \$276,644 to this project. This project is now completed.
- The City's current MSHDA grant of \$250,000 to rehabilitate residential apartment units is almost completely expended. Under this grant there are currently nine units that are complete or near completion.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) governmental-wide financial statements, 2) notes to the financial statements and 3) fund financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances. These statements are similar to those of a private sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

In the statement of net assets and the statement of activities, the City is divided into three kinds of activities:

- Governmental activities - Most of the City's basic services are reported here, including public safety, public works, general administration, community and economic development and parks and recreation. Property taxes and state shared revenues finance most of these activities.
- Business-type activities - The City charges a fee to customers to help it cover all or most of the cost of certain services provided. The City's water and sewer systems are reported here.
- Component Unit activities - Component units are separate legal entities for which the City of Newaygo has some level of financial accountability. The City has three component units: Tax Increment Finance Authority (TIFA), Local Development Finance Authority (LDFA), and the Newaygo Carnegie Library. TIFA and LDFA exist primarily for the issuance and repayment of debt to finance improvement projects in specific areas of the City.

Fund Financial Statements

The fund financial statements begin on page 5 and provide detailed information about the most significant City funds - not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City Council has established several other funds to help it control and manage money for particular purposes. The City has the following kinds of funds:

- Governmental funds - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. The governmental fund statements provide a detailed short-term view of the City's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental funds in a reconciliation along with the fund financial statements.
- Proprietary funds - When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. The City's Enterprise and Internal Service funds are proprietary funds. The City's water and sewer operations comprise the enterprise funds. The Building Authority and Equipment Pool comprise the Internal Service funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net assets and the statement of activities. In fact, the City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

- **Fiduciary funds** - The City is the trustee, or fiduciary, for certain funds. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations. City funds that are considered fiduciary funds include: Tax Collection, Museum, Escrow, Historic Clock Tower, and Arts and Mural.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary information as it relates to the actual expenditures for the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis of the government-wide financials focuses mainly on two things, net assets (Statement of Net Assets) and changes in net assets (Statement of Activities) of the City's governmental and business-type activities. **The Component Units (TIFA, LDFA, Newaygo Carnegie Library) are not included in these figures.**

Net Assets

The first table presented below is a summary of the government-wide statement of net assets for the City of Newaygo. As stated earlier, the net assets may be used as an indicator of a government's financial health. As of June 30, 2005, the City's net assets from governmental activities totaled \$6,964,251 and \$7,453,125 from business-type activities, creating a total government-wide net assets total of \$14,417,376.

In examining the composition of these net assets, the reader should note that net assets for governmental activities are mostly invested in capital assets (i.e., streets, buildings, land, vehicles, equipment, etc.). These assets are used to provide services to the City's residents, and they are not available to pay salaries, operational expenses or fund capital projects. The unrestricted net assets for governmental-type activities actually depict a balance of \$594,090. This represents the amount of discretionary resources that can be used for general governmental operations. Restricted net assets, those restricted mainly for streets and highways, debt service, and capital projects were \$300,586.

Some of the more significant change in activities from last year are as follows: For governmental activities, current and other assets decrease by \$399,000 due to decreases in cash, special assessments receivable, and amounts due from other governments. Capital assets increased by \$737,000 due to sidewalks, lighting, landscaping, parking, etc. installed under the MDOT and CDBG grants. Other liabilities (accounts payable) decreased by \$121,000 due to a drop in construction activity at the end of the year. Capital assets net of related debt increased by \$737,000 due to infrastructure put in place under the MDOT and CDBG grants as mentioned above.

CITY OF NEWAYGO, MICHIGAN

Management's Discussion and Analysis

For business activities, capital assets increased by \$1,978,000 due to miles of new water and sewer mains installed, lift stations installed, upgraded, or replaced, and upgrades to the City's wastewater treatment plant that took place with Rural Development grants and loans. Coinciding with the increase of capital assets above, long term debt increased by \$213,000 due to 40 year loans with Rural Development for the infrastructure mentioned above. Other liabilities (accounts payable) decreased by \$302,000 due primarily to a drop in construction activity at the end of the year. Capital assets net of related debt increased by \$1,671,000 due to the construction mentioned above. Unrestricted net assets increased by \$166,000 due to an increase in cash due to higher utility rates charged to customers.

Net assets (in thousands) as of June 30, follows:

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 1,376	\$ 1,775	\$ 803	\$ 850	\$ 2,179	\$ 2,625
Capital assets	7,113	6,376	10,067	8,089	17,180	14,465
Total assets	\$ 8,489	\$ 8,151	\$ 10,870	\$ 8,939	\$ 19,359	\$ 17,090
Long-term debt outstanding	\$ 1,161	\$ 1,164	\$ 3,020	\$ 2,807	\$ 4,181	\$ 3,971
Other liabilities	364	485	397	698	761	1,183
Total liabilities	\$ 1,525	\$ 1,649	\$ 3,417	\$ 3,505	\$ 4,942	\$ 5,154
Net assets						
Invested in capital assets, net of related debt	\$ 6,070	\$ 5,453	\$ 6,953	\$ 5,282	\$ 13,023	\$ 10,735
Restricted	300	452	182	-	482	452
Unrestricted	594	597	318	152	912	749
Total net assets	\$ 6,964	\$ 6,502	\$ 7,453	\$ 5,434	\$ 14,417	\$ 11,936

Change in Net Assets

Governmental Activities

Revenues for the City's governmental activities exceeded expenses by \$462,462. Most of this is due to capital grants and contributions totaling \$821,513, most of which, is attributed to CDBG and MDOT Enhancement funds. Operating grants decreased by \$205,000 as certain grants neared completion. The capital grants and contributions revenue decreased by \$566,000 due to the projects finishing up and most of the grant monies being received in the previous year.

The City decreased its property tax millage from 19.1698 mills to 18.8500 in 2004. The decreased millage rate was completely offset by an increase in taxable value. This brought in \$272,136 in tax revenue to the City's General Fund, an increase of \$563. Shared revenues from the State of Michigan sales tax were \$170,036, a decrease of \$1,874 (-1.1%). This resulted from economic conditions and budget shortfalls of the State. Revenue sharing for Major and Local Street funds, was down \$8,796.02 (-4.9%). TIFA and LDFA disbursed a total of \$165,000 to the City's General Fund. This was an increase of \$30,000 (18.2%) from last year.

Most of the governmental expenses are attributable to wages, health care, rehab of rental units under the MSHDA grant, and infrastructure improvements under the CDBG grant. Public works expenses increased by \$411,000 as local monies were spent on the CDBG and MDOT projects. Community and economic development decreased by \$192,000 as the MSHDA grant from came to a conclusion.

Business-Type Activities

Operating revenues for the business-type activities were \$860,820, an increase of \$106,878 (12.5%). This figure is comprised of two parts, charges for services and connection fees. Charges for services were \$791,159, an increase of \$59,916 (7.6%), due to a full year of collecting higher utility charges from a rate change in the previous year. Connection fees were \$69,661, an increase of \$46,962 (67.5%), due to growth from new businesses. Capital grants and contributions, mostly from Rural Development, totaled \$2,014,151. This is an increase of \$1,268,000. During the year, much work was completed on the water and sewer systems and therefore most of the grant money from Rural Development was received.

Operating expenses for the business-type activities were \$741,594, an increase of \$28,242 (3.9%). This figure is comprised of three parts, administration, operations, and depreciation.

CITY OF NEWAYGO, MICHIGAN

Management's Discussion and Analysis

Changes in net assets (in thousands) as of June 30, follows:

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues						
Program revenues						
Charges for services	\$ 173	\$ 288	\$ 861	\$ 754	\$ 1,034	\$ 1,042
Operating grants and contributions	282	487	-	-	282	487
Capital grants and contributions	822	1,388	2,014	746	2,836	2,134
General revenues						
Property taxes	272	271	-	-	272	271
State shared revenues	170	172	-	-	170	172
Investment earnings	29	22	9	3	38	25
Franchise fees	13	6	-	-	13	6
Other	260	37	-	-	260	37
Total revenues	2,021	2,671	2,884	1,503	4,905	4,174
Expenses						
Governmental activities						
General government	312	294	-	-	312	294
Public safety	353	338	-	-	353	338
Public works	653	242	-	-	653	242
Community and economic development	74	266	-	-	74	266
Culture and recreation	134	76	-	-	134	76
Other	-	43	-	-	-	43
Interest on long-term debt	33	31	-	-	33	31
Business-type activities						
Water	-	-	444	419	444	419
Sewer	-	-	421	400	421	400
Total expenses	1,559	1,290	865	819	2,424	2,109
Changes in net assets	462	1,381	2,019	684	2,481	2,065
Net assets at beginning of year	6,502	5,121	5,434	4,750	11,936	9,871
Net assets at end of year	\$ 6,964	\$ 6,502	\$ 7,453	\$ 5,434	\$ 14,417	\$ 11,936

CITY OF NEWAYGO, MICHIGAN

Management's Discussion and Analysis

ANALYSIS OF THE CITY'S INDIVIDUAL FUNDS

As stated earlier in this discussion and analysis, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2005, the City governmental funds reported a combined fund balance of \$530,024. This number represents the fund balance of \$221,588 in the General Fund and \$308,436 in other governmental funds. It is necessary to further distinguish between the unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the City's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to 1) liquidate contracts and purchase orders, 2) pay debt service, and 3) capital purchases. When the fund balance has been adjusted to account for these reserves, the result is a final unreserved fund balance of \$318,039, which consists of unreserved fund balance of \$209,902 in the General Fund plus the unreserved fund balance of \$108,137 in other governmental funds.

The General Fund is the chief operating fund of the City. Its reserved and unreserved fund balances are mentioned above. During the current fiscal year, the General Fund saw a fund balance increase of \$4,086. There were increased revenues for lot sales, charges for services, and a larger contribution received from TIFA. The largest expense increases were seen in the DPW and Park departments. The DPW began clearing snow from the downtown parking lots and sidewalks this year as part of an agreement with the downtown Principal Shopping District. Marshall Park was newly created this year and the other parks were cleaned up or improved as well.

The other governmental funds column consists of various funds. The Major and Local Street funds are the largest funds in that schedule. The end of year fund balance for Major Streets was \$87,975, a decrease of \$34,853 (-28.7%). Local Streets ended the year with a fund balance of \$20,162, a decrease of \$3,614 (-15.3%). The MDOT Enhancement fund saw a large decrease this year since the project was completed and the money in the fund spent. The project put in new sidewalks, lighting, and brick work along M-37 in the downtown area.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the governmental financial statements, but in more detail. In the financial statements, Sewer, Water, and Internal Service funds are grouped together as "Proprietary Funds". Unrestricted net assets of the Sewer Fund were \$67,836, an increase of \$54,529 (409%). Unrestricted net assets of the Water Fund were \$250,352, an increase of \$111,898 (80.8%). Unrestricted net assets of the Internal Service Funds were \$8,485, an increase of \$45,050 from the original deficit amount of (\$36,565).

Component Units

Component units are separate legal entities for which the City of Newaygo has some level of financial accountability. The City's Component Units consist of the Tax Increment Finance Authority (TIFA), the Local Development Finance Authority (LDFA), and the Newaygo Carnegie Library. Due to the fact that TIFA and LDFA make many debt payments without owning any infrastructure to offset the debt, these funds show large deficits for net assets. Overall these funds improved as their negative net asset values became smaller. Net assets of the TIFA were (\$2,615,368), a gain of \$262,114. Net assets of the LDFA were (\$4,005), a gain of \$26,038. The Newaygo Carnegie Library net assets were \$260,669, and increase of \$39,459.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council amended the General Fund budget. The most significant of these budget amendments was \$17,290 for law enforcement costs due to more than anticipated wages and radio equipment expenditures, \$29,621 for public works cost due to the addition of snow plowing for the downtown parking lots, and \$13,539 for parks for additional wages on time constructing Marshall Park. Despite these budget amendments, actual expenditures were \$15,342 below final budgeted amounts.

Revenues were \$46,665 greater than the amended budget. This occurred even though state shared revenues were \$19,859 less than the amended budget due to economic conditions and state budget cuts. Gains in other categories such as property taxes and charges for services helped to make up for the losses in revenue sharing. Overall, the General Fund had a net change in fund balance of \$4,086, largely due to transfers from the component units (TIFA and LDFA) totaling \$165,000. Law enforcement expenditures exceeded budget due to reallocation of costs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the City had \$17,180,075 invested in a broad range of capital assets including land, buildings, public safety equipment, roads, parks and water and sewer lines. Major capital addition related to governmental activity were new parking lots and improvement to the downtown streetscape. Major capital additions in the water and sewer funds this year include improvements to water and sewer systems, and purchase of equipment for public works. New water and sewer mains were installed. Manholes and mains were lined and rehabilitated. New lift stations were installed. Modifications and improvements were made to the wastewater treatment plant increasing the capacity of the plant. Additional information on capital assets can be found in note E of the notes to the financial statements.

Long-Term Debt

At June 30, 2005 the City had \$4,467,138 in long-term debt outstanding. This amount is comprised of many different debt obligations, most of which is attributed to debts on infrastructure for water and sanitary sewer systems. New debt issued by the City included \$90,000 for an additional garage at the DPW, \$166,949 for equipment, \$401,000 in rural development loans to improve the water and sewer system.

In addition to the City's debt, component units such as the TIFA and LDFA had outstanding long-term debt totaling \$7,554,471. \$5,640,471 of this debt is owed on the Magna Donnelly building which is presently owned by the TIFA. Debt issued by the component units is typically secured by the limited full faith and credit of the City and so is an important consideration in assessing the City's overall fiscal health. Additional information concerning component units' long-term debt is presented in note E of the notes to the financial statements.

GENERAL ECONOMIC OVERVIEW

The City depends on four major sources of income to fund operations: local property taxes, state shared revenues from sales tax, state street funds, and water and sewer utility fees. Clearly, discussion of the City's financial outlook must center on these major income sources.

Local Property Tax

The current 2005-06 budget includes the same millage rate of 18.8500 as levied in the 2004-05 budget. The City Council and staff have discussed in depth the need to decrease the tax burden and promote economic growth. As a result, the Newaygo Economic Development Office (NEDO) was formed. If growth is managed correctly, it will pay for itself and also helped to reduce the tax burden on the citizens of the City.

Another factor influencing property tax revenues is Proposal A. The statewide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because certain properties may increase in value by less than inflation, the result is that the City's total taxable value may grow less than inflation. In addition, almost the entire City is part of a TIFA district. This means that most of the tax revenue available to the General Fund for City operations is capped at a certain amount. This has been true since the formation of the TIFA District back in 1985. However, a new transfer of land into the City through a PA 425 agreement or annexation would bring additional tax revenues to the City's General Fund. The City is also looking at reducing the size of the TIFA District to free up captured taxes to further supplement the tax revenues available to the General Fund.

State Shared Revenues

State shared revenues are based on sales tax revenues which have decreased recently with the economic downturn. The state is also in a budget crisis and has discussed using some of this revenue sharing to balance the state budget. Further cuts in state shared revenues are imminent. Management continues to monitor this situation and the affect any changes will have on the City's budget. State shared sales tax revenues represent approximately 25% of total General Fund revenues. Over the past four years, the amount of revenue sharing received by the City has decreased about 10% per year. This year the revenue stayed level with only a minor decrease of about \$1,874. For the fiscal year ending June 30, 2005, the City received \$170,036 from state sales tax revenue sharing.

Street Funds

The State also returns to the City a share of gasoline tax revenues to help fund maintenance and construction of major and local streets in the City. These revenues have not suffered to the extent that general state sales tax revenues have. Over the past four years, revenues for streets have increased steadily. This year's financial statements saw a decrease. Major street revenues decreased 4.5% to a total of \$125,406. Local street revenues decreased 4.2% to a total of \$44,134.

Water and Sewer Fees

Other than local property taxes, combined water and sewer fees represent the City's largest income source totaling \$860,820. Charges to customers are based on the amount of metered services used times rates periodically set by the City Council. Rates did not change in the 2004-05 fiscal year. It is anticipated that rates will remain unchanged in the 2005-06 fiscal year. However, the City continues to review its fee policies in order to equitably charge for water and sewer usage. The City hopes to keep its water and sewer rates level by bringing in new growth to generate new revenue. The City has also been approached by a group seeking sanitary services to protect Hess and Brooks Lake. Providing these services would also generate new revenues for the Sewer Fund.

CITY OF NEWAYGO, MICHIGAN

Management's Discussion and Analysis

The City has also begun to put away contingency funds for water and sewer infrastructure replacements. This will help to reduce or eliminate large bond issues for future improvements. Due to money received by Rural Development, the City has also installed or repaired much infrastructure and purchased new equipment relating to the water and sewer systems. This is significant because it helps to keep repair and maintenance costs down and also provide capacity for the future growth of the City.

The next major capital outlay, approximately \$3,000,000, will come from the need for an additional City water well, an expanded iron removal plant for the Water Fund, and an additional water tower. The City is looking at ways to cover these costs with minimal burden to the citizens of the City.

Miscellaneous

The City is doing a number of things to exercise good fiscal responsibility. The City has responded to the economic downturn and pressure on revenues by reducing program expenses. The City has hired people with skills to handle different tasks "in-house" rather than paying expensive consultants or other third parties. The City has also started various maintenance or replacement programs for vehicles, heavy machinery and office equipment in order to keep maintenance expenses down and to eliminate large capital outlays for wide spread replacements. This year the repair and maintenance costs in the Equipment Pool has dropped dramatically due to this program. The City has started a retirement health savings plan to reduce the City's future liability on accumulated leave time. The City is also working on a capital improvement program to project expenses five years into the future. Lastly, the City recognizes the value of its employees and the need for good, well trained, professional people that exhibit leadership and a positive attitude. With this in mind the City has increased its focus on training, safety, risk management, and people skills.

Library

As of September 1, 2005, the Newaygo Carnegie Library was converted to a district library and is now known as the Newaygo Area District Library. The Library's funds will no longer be reported as part of the City's financial statements in the future.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designated to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City Office at 28 State Road, PO Box 308, Newaygo, Michigan 49337 or call (231) 652-1657.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

November 5, 2005

Honorable Mayor and Members
of the City Council
City of Newaygo
Newaygo, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Newaygo as of and for the year ended June 30, 2005, which collectively comprise the City's financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Newaygo's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Newaygo, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2005, on our consideration of the City of Newaygo, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

BRICKLEY DELONG

City Council
November 5, 2005
Page 2

The management's discussion and analysis and budgetary comparison information on pages i through x and 34 are not a required part of the basic financial statement but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Newaygo's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor funds financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brickley DeLong, PLC

City of Newaygo
STATEMENT OF NET ASSETS
June 30, 2005

ASSETS

	Governmental activities	Business-type activities	Total	Component units
CURRENT ASSETS				
Cash and investments	\$ 561,569	\$ 364,483	\$ 926,052	\$ 200,010
Receivables	57,940	88,243	146,183	267
Internal balances	(14,000)	14,000	-	-
Due from other governmental units	126,366	146,051	272,417	21,196
Inventories	-	6,812	6,812	-
Prepaid items	11,686	1,400	13,086	-
Total current assets	743,561	620,989	1,364,550	221,473
NONCURRENT ASSETS				
Restricted assets	-	181,631	181,631	360,870
Capital assets, net				
Nondepreciable	439,098	429,500	868,598	40,950
Depreciable	6,673,671	9,637,806	16,311,477	4,938,190
Special assessments	382,994	-	382,994	-
Notes receivable	250,000	-	250,000	-
Total noncurrent assets	7,745,763	10,248,937	17,994,700	5,340,010
Total assets	8,489,324	10,869,926	19,359,250	5,561,483
LIABILITIES AND NET ASSETS (DEFICITS)				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	140,040	283,376	423,416	105,840
Due to other governmental units	-	-	-	189,882
Deferred revenue	51,320	-	51,320	69,994
Bonds, capital leases and contracts, due within one year	152,800	106,000	258,800	296,800
Compensated absences, due within one year	20,259	7,507	27,766	-
Total current liabilities	364,419	396,883	761,302	662,516
NONCURRENT LIABILITIES				
Bonds, capital leases and contracts, less amounts due within one year	1,140,394	3,008,000	4,148,394	7,257,671
Compensated absences, less amounts due within one year	20,260	11,918	32,178	-
Total noncurrent liabilities	1,160,654	3,019,918	4,180,572	7,257,671
Total liabilities	1,525,073	3,416,801	4,941,874	7,920,187
NET ASSETS (DEFICITS)				
Invested in capital assets, net of related debt	6,069,575	6,953,306	13,022,881	(661,331)
Restricted for:				
Streets and highways	108,137	-	108,137	-
Capital projects	95,154	-	95,154	-
Debt service	97,295	181,631	278,926	360,870
Unrestricted	594,090	318,188	912,278	(2,058,243)
Total net assets	\$ 6,964,251	\$ 7,453,125	\$ 14,417,376	\$ (2,358,704)

The accompanying notes are an integral part of this statement.

City of Newaygo
STATEMENT OF ACTIVITIES
For the year ended June 30, 2005

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets			
		Charges for services	Operating grants and contributions	Capital grants and contributions	Primary Government			Component units
					Governmental activities	Business-type activities	Total	
Primary government								
Governmental activities								
General government	\$ 311,531	\$ 118,989	\$ -	\$ 49,920	\$ (142,622)	\$ -	\$ (142,622)	\$ -
Public safety	352,697	22,396	37,336	-	(292,965)	-	(292,965)	-
Public works	652,765	31,823	172,190	756,560	307,808	-	307,808	-
Community and economic development	74,190	-	72,882	-	(1,308)	-	(1,308)	-
Culture and recreation	134,428	-	-	15,033	(119,395)	-	(119,395)	-
Interest on long-term debt	32,965	-	-	-	(32,965)	-	(32,965)	-
Total governmental activities	1,558,576	173,208	282,408	821,513	(281,447)	-	(281,447)	-
Business-type activities								
Sewer	443,939	407,412	-	2,014,151	-	1,977,624	1,977,624	-
Water	420,653	453,408	-	-	-	32,755	32,755	-
Total business-type activities	864,592	860,820	-	2,014,151	-	2,010,379	2,010,379	-
Total primary government	\$ 2,423,168	\$ 1,034,028	\$ 282,408	\$ 2,835,664	(281,447)	2,010,379	1,728,932	-
Component units								
Tax Increment Finance Authority	\$ 1,403,775	\$ -	\$ -	\$ -	-	-	-	(1,403,775)
Local Development Finance Authority	71,549	-	-	-	-	-	-	(71,549)
Newaygo Carnegie Library	195,344	51,987	143,687	-	-	-	-	330
Total component units	\$ 1,670,668	\$ 51,987	\$ 143,687	\$ -	-	-	-	(1,474,994)
General revenues								
Property taxes					272,136	-	272,136	1,777,446
Franchise fees					12,652	-	12,652	-
Grants and contributions not restricted to specific programs					335,036	-	335,036	-
Unrestricted investment earnings					28,727	8,569	37,296	10,044
Miscellaneous					38,126	-	38,126	15,115
Gain on sale of capital asset					57,232	-	57,232	-
Total general revenues					743,909	8,569	752,478	1,802,605
Change in net assets					462,462	2,018,948	2,481,410	327,611
Net assets (deficit) at July 1, 2004, as restated					6,501,789	5,434,177	11,935,966	(2,686,315)
Net assets (deficit) at June 30, 2005					\$ 6,964,251	\$ 7,453,125	\$ 14,417,376	\$ (2,358,704)

The accompanying notes are an integral part of this statement.

City of Newaygo
BALANCE SHEET
Governmental Funds
June 30, 2005

	General Fund	MDOT Enhancement Fund	CDBG	CDBG Debt Service	Other governmental funds	Total governmental funds
ASSETS						
Cash and investments	\$ 145,843	\$ 10,153	\$ 82,300	\$ 32,491	\$ 271,670	\$ 542,457
Receivables						
Accounts	16,722	-	-	-	-	16,722
Special assessments	-	-	-	328,760	95,452	424,212
Due from other funds	19,326	-	-	-	4,495	23,821
Due from other governmental units	60,112	-	-	-	66,254	126,366
Prepaid items	11,686	-	-	-	-	11,686
Total assets	<u>\$ 253,689</u>	<u>\$ 10,153</u>	<u>\$ 82,300</u>	<u>\$ 361,251</u>	<u>\$ 437,871</u>	<u>\$ 1,145,264</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 13,606	\$ -	\$ 30,366	\$ -	\$ 77,591	\$ 121,563
Due to other funds	18,495	-	-	-	19,326	37,821
Deferred revenue	-	-	-	314,860	140,996	455,856
Total liabilities	32,101	-	30,366	314,860	237,913	615,240
Fund balances						
Reserved for:						
Prepaid items	11,686	-	-	-	-	11,686
Debt service	-	-	-	46,391	58,754	105,145
Capital projects	-	10,153	51,934	-	33,067	95,154
Unreserved						
General fund	209,902	-	-	-	-	209,902
Special revenue funds	-	-	-	-	108,137	108,137
Total fund balances	<u>221,588</u>	<u>10,153</u>	<u>51,934</u>	<u>46,391</u>	<u>199,958</u>	<u>530,024</u>
Total liabilities and fund balances	<u>\$ 253,689</u>	<u>\$ 10,153</u>	<u>\$ 82,300</u>	<u>\$ 361,251</u>	<u>\$ 437,871</u>	<u>\$ 1,145,264</u>

The accompanying notes are an integral part of this statement.

City of Newaygo
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS**
 June 30, 2005

Total fund balance—governmental funds	\$	530,024
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources and
are not reported in the governmental funds.

Cost of capital assets	\$ 8,633,702	
Accumulated depreciation	<u>(2,057,115)</u>	6,576,587

Other long-term note receivable in governmental activities is not reported in the
governmental funds.

250,000

Long-term liabilities in governmental activities are not due and payable in the
current period and are not reported in the governmental funds.

Bonds payable	(1,035,000)	
Compensated absences	<u>(40,519)</u>	(1,075,519)

Accrued interest in governmental activities is not reported in the governmental funds.

(7,850)

Special assessment revenue is not recognized until it is receivable in the current
period and therefore is shown as deferred revenue in the governmental funds.

404,536

Internal service funds are used by management to charge the costs of building and
equipment to individual funds. The assets and liabilities of the internal service funds
are included in the governmental activities in the Statement of Net Assets.

286,473

Net assets of governmental activities in the Statement of Net Assets	\$	<u><u>6,964,251</u></u>
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The accompanying notes are an integral part of this statement.

City of Newaygo
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended June 30, 2005

	General Fund	MDOT Enhancement Fund	CDBG Fund	CDBG Debt Service	Other governmental funds	Total governmental funds
REVENUES						
Property taxes	\$ 269,801	\$ -	\$ -	\$ -	\$ -	\$ 269,801
Licenses and permits	19,872	-	-	-	-	19,872
Intergovernmental revenues						
Federal	29,143	143,202	283,812	-	38,837	494,994
State	171,241	-	-	-	169,540	340,781
Local	171,913	-	270,000	-	34,046	475,959
Charges for services	179,667	-	-	-	76,561	256,228
Fines and forfeitures	16,382	-	-	-	-	16,382
Investment earnings	3,513	-	161	16,933	10,767	31,374
Other	48,433	-	-	35,140	17,086	100,659
Total revenues	909,965	143,202	553,973	52,073	346,837	2,006,050
EXPENDITURES						
Current						
General government	275,724	-	-	-	-	275,724
Public safety	336,750	-	-	-	-	336,750
Public works	177,905	-	-	-	237,297	415,202
Community and economic development	1,113	-	-	-	73,077	74,190
Culture and recreation	67,710	-	-	-	33,626	101,336
Other governmental functions	38,172	-	-	-	-	38,172
Debt service						
Principal	-	-	-	-	68,000	68,000
Interest and fees	-	-	-	13,210	11,126	24,336
Capital outlay	7,669	309,273	502,039	-	90,836	909,817
Total expenditures	905,043	309,273	502,039	13,210	513,962	2,243,527
Excess of revenues over (under) expenditures	4,922	(166,071)	51,934	38,863	(167,125)	(237,477)
OTHER FINANCING SOURCES (USES)						
Proceeds from long-term debt	-	-	-	-	90,000	90,000
Transfers in	-	-	-	-	10,836	10,836
Transfers out	(836)	-	-	-	(10,000)	(10,836)
Total other financing sources (uses)	(836)	-	-	-	90,836	90,000
Net change in fund balances	4,086	(166,071)	51,934	38,863	(76,289)	(147,477)
Fund balances at July 1, 2004	217,502	176,224	-	7,528	276,247	677,501
Fund balances at June 30, 2005	\$ 221,588	\$ 10,153	\$ 51,934	\$ 46,391	\$ 199,958	\$ 530,024

The accompanying notes are an integral part of this statement.

City of Newaygo
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**
 For the year ended June 30, 2005

Net change in fund balances—total governmental funds: \$ (147,477)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.

Depreciation expense	\$ (371,487)	
Capital outlay	<u>1,018,526</u>	647,039

Proceeds from bond issuance is an other financing source in the governmental funds, but the proceeds increase long-term debt in the Statement of Net Assets.		(90,000)
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Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		68,000
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Accrued interest on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.		(100)
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Increases in the compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.		(59)
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Governmental funds recognize special assessments as revenue as they become current, however they are recognized in full when levied in the Statement of Net Assets.		(52,225)
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The internal service fund is used by management to charge the costs of building and equipment costs to individual funds.

The net revenue of certain activities of internal service funds is reported with governmental activities.		<u>37,284</u>
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Change in net assets of governmental activities		<u><u>\$ 462,462</u></u>
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The accompanying notes are an integral part of this statement.

City of Newaygo
STATEMENT OF NET ASSETS
Proprietary Funds
June 30, 2005

ASSETS

	Enterprise funds			Internal service funds
	Sewer	Water	Total	
CURRENT ASSETS				
Cash and investments	\$ 93,857	\$ 270,626	\$ 364,483	\$ 19,112
Accounts receivable	38,588	49,655	88,243	-
Due from other funds	7,000	7,000	14,000	-
Due from other governmental units	146,051	-	146,051	-
Inventories	3,888	2,924	6,812	-
Prepaid items	1,400	-	1,400	-
Total current assets	290,784	330,205	620,989	19,112
NONCURRENT ASSETS				
Restricted assets	93,468	88,163	181,631	-
Capital assets				
Land	429,500	-	429,500	-
Utility systems	7,315,915	4,678,200	11,994,115	-
Buildings and improvements	-	-	-	401,888
Vehicles and equipment	192,087	95,879	287,966	634,738
Less accumulated depreciation	(1,507,801)	(1,136,474)	(2,644,275)	(500,444)
Net capital assets	6,429,701	3,637,605	10,067,306	536,182
Total noncurrent assets	6,523,169	3,725,768	10,248,937	536,182
Total assets	6,813,953	4,055,973	10,869,926	555,294
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	191,206	36,570	227,776	2,327
Accrued liabilities	22,900	32,700	55,600	8,300
Bonds, capital leases and contracts, due within one year	52,000	54,000	106,000	32,800
Compensated absences, due within one year	3,753	3,754	7,507	-
Total current liabilities	269,859	127,024	396,883	43,427
NONCURRENT LIABILITIES				
Bonds, capital leases and contracts, less amounts due within one year	1,281,000	1,727,000	3,008,000	225,394
Compensated absences, less amounts due within one year	5,089	6,829	11,918	-
Total noncurrent liabilities	1,286,089	1,733,829	3,019,918	225,394
Total liabilities	1,555,948	1,860,853	3,416,801	268,821
NET ASSETS				
Invested in capital assets, net of related debt	5,096,701	1,856,605	6,953,306	277,988
Restricted for debt service	93,468	88,163	181,631	-
Unrestricted	67,836	250,352	318,188	8,485
Total net assets	\$ 5,258,005	\$ 2,195,120	\$ 7,453,125	\$ 286,473

The accompanying notes are an integral part of this statement.

City of Newaygo
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 Proprietary Funds
 For the year ended June 30, 2005

	Enterprise funds			Internal service funds
	Sewer	Water	Total	
REVENUES				
Charges for services	\$ 376,464	\$ 414,695	\$ 791,159	\$ 221,734
OPERATING EXPENSES				
Administration	95,397	106,125	201,522	-
Operations	179,419	179,419	358,838	129,764
Depreciation and amortization	110,238	70,996	181,234	78,388
Total operating expenses	385,054	356,540	741,594	208,152
Operating income (loss)	(8,590)	58,155	49,565	13,582
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	2,434	6,135	8,569	-
Connection fees	30,948	38,713	69,661	-
Interest expense	(50,411)	(64,113)	(114,524)	(8,530)
Total nonoperating revenue (expenses)	(17,029)	(19,265)	(36,294)	(8,530)
Income (loss) before contributions	(25,619)	38,890	13,271	5,052
Capital contributions	2,014,151	-	2,014,151	-
Gain (loss) on sale of capital asset	(8,474)	-	(8,474)	32,232
Change in net assets	1,980,058	38,890	2,018,948	37,284
Total net assets at July 1, 2004	3,277,947	2,156,230	5,434,177	249,189
Total net assets at June 30, 2005	\$ 5,258,005	\$ 2,195,120	\$ 7,453,125	\$ 286,473

The accompanying notes are an integral part of this statement.

City of Newaygo
STATEMENT OF CASH FLOWS
Proprietary Funds
For the year ended June 30, 2005

	Enterprise funds			Internal service funds
	Sewer	Water	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 372,030	\$ 397,003	\$ 769,033	\$ -
Receipts from interfund services provided	1,067	1,878	2,945	198,750
Payments to suppliers	(88,928)	(82,333)	(171,261)	(115,192)
Payments to employees	(149,201)	(160,246)	(309,447)	(13,002)
Payment for interfund services used	(38,391)	(43,198)	(81,589)	-
Other receipts	1,433	5,781	7,214	22,984
Net cash provided by operating activities	98,010	118,885	216,895	93,540
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating subsidies and transfers to other funds	(3,950)	37,558	33,608	(33,608)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from capital debt	-	401,000	401,000	166,949
Capital contributions	2,267,300	-	2,267,300	-
Connection fees	30,948	38,713	69,661	-
Purchases of capital assets	(2,214,233)	(376,130)	(2,590,363)	(181,917)
Principal and interest paid on capital debt	(99,211)	(113,013)	(212,224)	(70,845)
Proceeds from sale of capital assets	21,031	-	21,031	44,993
Net cash provided by (used for) capital and related financing activities	5,835	(49,430)	(43,595)	(40,820)
CASH FLOW FROM INVESTING ACTIVITIES				
Investment earnings	2,434	6,135	8,569	-
Net increase in cash and investments	102,329	113,148	215,477	19,112
Cash and investments at July 1, 2004	84,996	245,641	330,637	-
Cash and investments at June 30, 2005	<u>\$ 187,325</u>	<u>\$ 358,789</u>	<u>\$ 546,114</u>	<u>\$ 19,112</u>
Reconciliation of cash and investments to the balance sheet				
Cash and investments	\$ 93,857	\$ 270,626	\$ 364,483	\$ 19,112
Restricted assets	93,468	88,163	181,631	-
	<u>\$ 187,325</u>	<u>\$ 358,789</u>	<u>\$ 546,114</u>	<u>\$ 19,112</u>
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ (8,590)	\$ 58,155	\$ 49,565	\$ 13,582
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation and amortization expense	110,238	70,996	181,234	78,388
Change in assets and liabilities				
Receivables, net	(1,934)	(7,247)	(9,181)	-
Internal balances	(7,000)	(7,000)	(14,000)	-
Prepaid items	(1,400)	-	(1,400)	-
Accounts and other payables	5,301	845	6,146	1,570
Accrued liabilities	1,395	3,136	4,531	-
Net cash provided by operating activities	<u>\$ 98,010</u>	<u>\$ 118,885</u>	<u>\$ 216,895</u>	<u>\$ 93,540</u>

The accompanying notes are an integral part of this statement.

City of Newaygo
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
June 30, 2005

	<u>Agency funds</u>
ASSETS	
Cash and investments	\$ <u>82,148</u>
Total assets	\$ <u><u>82,148</u></u>
 LIABILITIES	
Due to other governmental units	\$ 12,326
Deposits held for others	<u>69,822</u>
Total liabilities	\$ <u><u>82,148</u></u>

The accompanying notes are an integral part of this statement.

City of Newaygo
STATEMENT OF NET ASSETS
Discretely Presented Component Units
June 30, 2005

ASSETS

	Tax Increment Finance Authority	Local Development Finance Authority	Newaygo Carnegie Library	Total
CURRENT ASSETS				
Cash and investments	\$ -	\$ 18,299	\$ 181,711	\$ 200,010
Receivables	-	-	267	267
Due from other governmental units	-	21,196	-	21,196
Total current assets	-	39,495	181,978	221,473
NONCURRENT ASSETS				
Restricted assets	360,870	-	-	360,870
Capital assets, net				
Nondepreciable	40,950	-	-	40,950
Depreciable	4,785,556	-	152,634	4,938,190
Net capital assets	4,826,506	-	152,634	4,979,140
Total noncurrent assets	5,187,376	-	152,634	5,340,010
Total assets	5,187,376	39,495	334,612	5,561,483

LIABILITIES AND NET ASSETS (DEFICITS)

CURRENT LIABILITIES				
Accounts payable and accrued liabilities	101,391	500	3,949	105,840
Due to other governmental units	189,882	-	-	189,882
Deferred revenue	-	-	69,994	69,994
Bonds, capital leases and contracts, due within one year	275,800	21,000	-	296,800
Total current liabilities	567,073	21,500	73,943	662,516
NONCURRENT LIABILITIES				
Bonds, capital leases and contracts, less amounts due within one year	7,235,671	22,000	-	7,257,671
Total liabilities	7,802,744	43,500	73,943	7,920,187
NET ASSETS (DEFICITS)				
Invested in capital assets, net of related debt	(813,965)	-	152,634	(661,331)
Restricted for debt service	360,870	-	-	360,870
Unrestricted	(2,162,273)	(4,005)	108,035	(2,058,243)
Total net assets	\$ (2,615,368)	\$ (4,005)	\$ 260,669	\$ (2,358,704)

The accompanying notes are an integral part of this statement.

City of Newaygo
STATEMENT OF ACTIVITIES
Discretely Presented Component Units
For the year ended June 30, 2005

<i>Functions/Programs</i>	Net (Expense) Revenue and Changes in Net Assets						
	Expenses	Program Revenue		Tax	Local	Newaygo	Total
		Charges for services	Operating grants and contributions	Increment Finance Authority	Development Finance Authority	Carnegie Library	
Tax Increment Finance Authority							
General government	\$ 96,474	\$ -	\$ -	\$ (96,474)	\$ -	\$ -	\$ (96,474)
Public works	83,206	-	-	(83,206)	-	-	(83,206)
Community and economic development	572,753	-	-	(572,753)	-	-	(572,753)
Distributions to other taxing authorities	352,122	-	-	(352,122)	-	-	(352,122)
Interest on long-term debt	299,220	-	-	(299,220)	-	-	(299,220)
Total Tax Increment Finance Authority	1,403,775	-	-	(1,403,775)	-	-	(1,403,775)
Local Development Finance Authority							
General government	5,000	-	-	-	(5,000)	-	(5,000)
Distributions to other taxing authorities	63,510	-	-	-	(63,510)	-	(63,510)
Interest on long-term debt	3,039	-	-	-	(3,039)	-	(3,039)
Total Local Development Finance Authority	71,549	-	-	-	(71,549)	-	(71,549)
Newaygo Carnegie Library							
Culture and recreation	195,344	51,987	143,687	-	-	330	330
Total discretely presented component units	\$ 1,670,668	\$ 51,987	\$ 143,687	(1,403,775)	(71,549)	330	(1,474,994)
General revenues							
Property taxes				1,658,996	96,478	21,972	1,777,446
Unrestricted investment earnings				6,893	1,109	2,042	10,044
Miscellaneous				-	-	15,115	15,115
Total general revenues				1,665,889	97,587	39,129	1,802,605
Change in net assets				262,114	26,038	39,459	327,611
Net assets (deficit) at July 1, 2004, as restated				(2,877,482)	(30,043)	221,210	(2,686,315)
Net assets (deficit) at June 30, 2005				\$ (2,615,368)	\$ (4,005)	\$ 260,669	\$ (2,358,704)

The accompanying notes are an integral part of this statement.

City of Newaygo
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Newaygo (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

1. Reporting Entity

The City of Newaygo (City) is a municipal corporation governed by an elected mayor and six-member City Council and is administered by a city manager appointed by the City Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government. Each discretely presented component unit has a June 30 fiscal year end.

Blended Component Unit

Building Authority. The City appoints all board members and approves annual budgets for the Authority, and the legal liability for the general obligation portion of the Authority's debt remains with the City. The Authority is reported as an internal service fund.

Discretely presented component units

Tax Increment Finance Authority (TIFA) and Local Development Finance Authority (LDFA). The TIFA and LDFA boards are appointed by the City Council, but the Authorities operate as a separate entity. The boards can authorize and issue debt independent from the City. The component units are presented as governmental fund types.

Newaygo Carnegie Library. The City of Newaygo appoints one board member and provides financial support for the Library through a property tax levy. The Library is presented as a governmental fund type.

2. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

City of Newaygo
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

2. Government-Wide and Fund Financial Statements—Continued

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The City does not allocate indirect costs.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The MDOT Enhancement Fund which is used to account for the Michigan Department of Transportation grant for streetscape improvements along M-37.

City of Newaygo
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

The CDBG Fund accounts for grant revenues from the City's Community Development Block Grant passed through the Michigan Economic Development Corporation for the purposes of capital improvements within the City.

The CDBG Debt Service Fund accounts for special assessment revenues from local residents for principal and interest payments on special assessment bonds issued in 2003.

The City reports the following two major proprietary funds:

The Sewer Fund operates the City's sewage collection and treatment plant.

The Water Fund operates the City's water filtration and distribution system.

Additionally, the City reports the following fund types:

Internal Service Fund accounts for equipment management services provided to other funds of the government on a cost reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

City of Newaygo
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Assets, Liabilities and Net Assets or Equity

a. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The City reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the City intends to hold the investment until maturity.

The City has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the City to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

The component units' cash and investments are maintained within the City's investment pool.

b. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

The City bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each July 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following March 1 are turned over by the City to the County for collection. The County advances the City all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the City. The City recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

City of Newaygo
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Assets, Liabilities and Net Assets or Equity—Continued

The 2004 state taxable value for real/personal property of the City totaled approximately \$48,180,000 of which approximately \$35,200,000 was captured by the component units. The ad valorem taxes levied consisted of 18.85 and .98 mills for the City's and Library's operating purposes. These amounts are recognized in the respective General Fund, Library, TIFA and LDFA funds.

c. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

d. Restricted Assets

Certain proceeds of the Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

e. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	10-20
Buildings and improvements	10-35
Office furniture and equipment	5-10
Vehicles and equipment	5-10
Infrastructure	10-50

City of Newaygo
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Assets, Liabilities and Net Assets or Equity—Continued

f. Compensated Absences

City employees are granted vacation and sick leave in varying amounts based on length of service. Any vacation which has not been used during the calendar year will be transferred to the employee's paid sick days accumulation at the end of the year. Upon termination, employees are paid for one-half of their accrued sick days as separation pay. If an employee dies, the full amount of accrued sick days will be paid to the employee's designated beneficiary. Sick leave is accumulated at the rate of one day per month of employment. Employees may accrue unused sick days up to a maximum of 120 days. On the last day of November of any calendar year, employees may elect to be paid for one-half of the unused sick days which they accumulated during the year (up to a maximum payment of six days).

g. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

h. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

i. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

City of Newaygo
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects funds, which adopt project-length budgets, and the permanent fund, which is not budgeted. All annual appropriations lapse at fiscal year end.

The City follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the first Monday of May, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the City Hall to obtain taxpayer comments.
- c. Not later than the first Monday in June, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the City Council. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. The City Council made several supplemental budgetary appropriations throughout the year.

2. Excess of Expenditures Over Appropriations

During the year ended June 30, 2005, the Principal Shopping District Fund was established, but no budget was approved for the fund's expenditures of \$26,448.

3. Fund Deficit

As of June 30, 2005, the TIFA General Fund had an undesignated fund deficit of \$242,472. The deficit will be eliminated through future operations.

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2005, the City had the following investments:

Investment Type	Fair value	Weighted average maturity (Days)	Moody's	Percent
Money market mutual fund	\$ 146,326	34	Aaa	34.7%
External investment pool	<u>275,009</u>	<u>25</u>	not rated	<u>65.3</u>
Total fair value	<u>\$ 421,335</u>			<u>100.0%</u>
Portfolio weighted average maturity		<u>28</u>		

City of Newaygo
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE C—DEPOSITS AND INVESTMENTS—CONTINUED

The City voluntarily invests certain excess funds in external pooled investment pool (Pool). The Pool is an external investment pool of "qualified" investments for Michigan municipalities. The Pool is not regulated nor registered with the SEC. The fair value of the City's investments is the same as the fair value of the Pool.

Interest rate risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations (NRSROs). The City has no investment policy that would further limit its investment choices.

Concentration of credit risk. The City does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the City investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2005, \$1,152,272 of the City's bank balance of \$1,342,993 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The City does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The City is not authorized to invest in investments which have this type of risk.

3. Restricted Assets

Restrictions are placed on assets by bond ordinance and City Council action. At June 30, 2005, restricted cash and investments in the enterprise funds and TIFA component unit are restricted as follows:

Business-type activities

Water Fund	
Bond and Interest Redemption Fund	\$ 8,607
Bond Reserve Fund	<u>79,556</u>
	88,163
Sewer Fund	
Bond and Interest Redemption Fund	7,493
Bond Reserve Funds	<u>85,975</u>
	<u>93,468</u>
	\$ <u>181,631</u>
Component units	
TIFA	
Bond interest and redemption	\$ <u>360,870</u>

After meeting the operation and maintenance and bond and interest redemption requirements of the bond ordinances, all remaining revenues of the system are to be paid to the bond reserve accounts until a sum equal to the maximum annual debt service requirement on the bonds has been accumulated. These amounts were achieved, as required.

City of Newaygo
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE D—NOTES RECEIVABLE

The notes receivable of \$250,000 are second mortgages to individuals under the Michigan State Housing Development Authority Home Community Development Block Grant Housing program for rental rehabilitation. The mortgage notes are non-interest bearing. In the event the property is sold or any interest in the property is transferred, or a breach of grant conditions occurs within the first 5 years, the mortgagor shall pay the principal amount of the second mortgage. If the property is not sold or transferred for a period of 5 years and all provisions of the mortgage note are complied with, the mortgage note is canceled.

NOTE E—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 91,342	\$ -	\$ -	\$ 91,342
Land improvements	305,956	-	-	305,956
Construction in progress	<u>181,919</u>	<u>351,074</u>	<u>491,193</u>	<u>41,800</u>
Total capital assets, not being depreciated	579,217	351,074	491,193	439,098
Capital assets, being depreciated:				
Land improvements	736,126	506,226	-	1,242,352
Buildings and other improvements	1,506,549	90,836	-	1,597,385
Furniture, vehicles and equipment	705,654	181,917	107,133	780,438
Infrastructure	4,076,248	59,546	297,425	3,838,369
Shared improvements	<u>1,270,647</u>	<u>502,039</u>	<u>-</u>	<u>1,772,686</u>
Total capital assets, being depreciated	8,295,224	1,340,564	404,558	9,231,230
Less accumulated depreciation for:				
Land improvements	268,074	42,946	-	311,020
Buildings and other improvements	344,975	44,085	-	389,060
Furniture, vehicles and equipment	460,447	74,585	94,370	440,662
Infrastructure	1,425,982	203,550	297,425	1,332,107
Shared improvements	<u>-</u>	<u>84,710</u>	<u>-</u>	<u>84,710</u>
Total accumulated depreciation	<u>2,499,478</u>	<u>449,876</u>	<u>391,795</u>	<u>2,557,559</u>
Total capital assets, being depreciated, net	<u>5,795,746</u>	<u>890,688</u>	<u>12,763</u>	<u>6,673,671</u>
Capital assets, net	\$ <u>6,374,963</u>	\$ <u>1,241,762</u>	\$ <u>503,956</u>	\$ <u>7,112,769</u>

City of Newaygo
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE E—CAPITAL ASSETS—Continued

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 429,500	\$ -	\$ -	\$ 429,500
Construction in progress	<u>3,296,953</u>	<u>-</u>	<u>3,296,953</u>	<u>-</u>
Total capital assets, not being depreciated	3,726,453	-	3,296,953	429,500
Capital assets, being depreciated:				
Sewer system	3,448,470	3,867,445	-	7,315,915
Water system	3,309,883	1,368,317	-	4,678,200
Equipment	<u>73,376</u>	<u>249,819</u>	<u>35,229</u>	<u>287,966</u>
Total capital assets, being depreciated	6,831,729	5,485,581	35,229	12,282,081
Less accumulated depreciation:				
Sewer system	1,373,075	104,949	-	1,478,024
Water system	1,053,581	69,591	-	1,123,172
Equipment	<u>42,110</u>	<u>6,694</u>	<u>5,725</u>	<u>43,079</u>
Total accumulated depreciated	<u>2,468,766</u>	<u>181,234</u>	<u>5,725</u>	<u>2,644,275</u>
Total capital assets being depreciated, net	<u>4,362,963</u>	<u>5,304,347</u>	<u>29,504</u>	<u>9,637,806</u>
Capital assets, net	<u>\$ 8,089,416</u>	<u>\$ 5,304,347</u>	<u>\$ 3,326,457</u>	<u>\$10,067,306</u>

Depreciation expense was charged to functions as follows:

Government activities:	
General government	\$ 23,690
Public safety	11,747
Public works	300,290
Culture and recreation	35,761
Internal Service Fund depreciation is charged to the various programs based on their usage of the assets	<u>78,388</u>
	<u>\$ 449,876</u>
Business-type activities:	
Sewer	\$ 110,238
Water	<u>70,996</u>
	<u>\$ 181,234</u>

City of Newaygo
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE E—CAPITAL ASSETS—Continued

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Component units:				
Capital assets, not being depreciated:				
Tax Increment Finance Authority				
Land	\$ -	\$ 40,950	\$ -	\$ 40,950
Capital assets, being depreciated:				
Tax Increment Finance Authority				
Building and improvements	7,000,000	-	-	7,000,000
Newaygo Carnegie Library				
Building and improvements	16,258	-	-	16,258
Books and periodicals	633,934	35,901	4,940	664,895
Equipment and furniture	<u>64,407</u>	<u>-</u>	<u>-</u>	<u>64,407</u>
Total Newaygo Carnegie Library	<u>714,599</u>	<u>35,901</u>	<u>4,940</u>	<u>745,560</u>
Total capital assets, being depreciated	7,714,599	35,901	4,940	7,745,560
Less accumulated depreciation for:				
Tax Increment Finance Authority				
Building and improvements	2,271,111	243,333	-	2,514,444
Newaygo Carnegie Library				
Building and improvements	2,633	425	-	3,058
Books and periodicals	502,043	29,102	4,940	526,205
Equipment and furniture	<u>59,199</u>	<u>4,464</u>	<u>-</u>	<u>63,663</u>
Total Newaygo Carnegie Library	<u>563,875</u>	<u>33,991</u>	<u>4,940</u>	<u>592,926</u>
Total accumulated depreciation	<u>2,834,986</u>	<u>277,324</u>	<u>4,940</u>	<u>3,107,370</u>
Total capital assets being depreciated, net	<u>4,879,613</u>	<u>(241,423)</u>	<u>-</u>	<u>4,638,190</u>
Capital assets, net	\$ <u>4,879,613</u>	\$ <u>(200,473)</u>	\$ <u>-</u>	\$ <u>4,679,140</u>
Depreciation expense was charged to functions as follows:				
Community and economic development				\$ 243,333
Culture and recreation				<u>33,991</u>
				\$ <u>277,324</u>

City of Newaygo
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE F—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>City</u>	
	<u>Unavailable</u>	<u>Unearned</u>
Special assessments	\$ 404,536	\$ -
Receivables	<u>-</u>	<u>51,320</u>
Total deferred revenue	<u>\$ 404,536</u>	<u>\$ 51,320</u>

NOTE G—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances, caused by normal operation, is as follows:

Due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	Other governmental funds	\$ 19,326
Sewer Fund	General Fund	7,000
Water Fund	General Fund	7,000
Other governmental funds	General Fund	<u>4,495</u>
		<u>\$ 37,821</u>

	<u>Transfers in:</u>		
	<u>Other governmental funds</u>	<u>Total</u>	<u>Purpose</u>
Transfers out:			
General Fund	\$ 836	\$ 836	Debt service
Other governmental funds	<u>10,000</u>	<u>10,000</u>	Public works
Total	<u>\$ 18,836</u>	<u>\$ 18,836</u>	

Component unit transactions:

During the year the TIFA and LDFA contributed significant amounts to the City as follows:

	<u>Governmental activities</u>
Capital activities	
TIFA	\$ 59,546
Operating activities	
TIFA	120,000
LDFA	45,000

City of Newaygo
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE H—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the City for the year ended June 30, 2005.

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2005</u>	<u>Due within one year</u>
Governmental activities:					
General obligation bonds	\$ 30,000	\$ 90,000	\$ 30,000	\$ 90,000	\$ 12,000
Special assessment bonds	523,000	-	20,000	503,000	60,000
Installment purchase agreements	369,660	166,949	86,415	450,194	80,800
Other	200,000	50,000	-	250,000	-
Compensated absences	<u>40,460</u>	<u>41,347</u>	<u>41,288</u>	<u>40,519</u>	<u>20,259</u>
Governmental activity long-term liabilities	<u>\$ 1,163,120</u>	<u>\$ 348,296</u>	<u>\$ 177,703</u>	<u>\$ 1,333,713</u>	<u>\$ 173,059</u>
Business-type activities:					
Revenue bonds	\$ 2,807,000	\$ 401,000	\$ 94,000	\$ 3,114,000	\$ 106,000
Compensated absences	<u>14,894</u>	<u>4,531</u>	<u>-</u>	<u>19,425</u>	<u>7,507</u>
Business-type activity long-term liabilities	<u>\$ 2,821,894</u>	<u>\$ 405,531</u>	<u>\$ 94,000</u>	<u>\$ 3,133,425</u>	<u>\$ 113,507</u>
Component units:					
Limited tax development	<u>\$ 8,159,118</u>	<u>\$ -</u>	<u>\$ 604,647</u>	<u>\$ 7,554,471</u>	<u>\$ 296,800</u>
Governmental activities:					
General obligation bonds:					
Capital Improvement Bonds of 2004 due in annual installments of \$12,000 to \$14,000 through November 2011; interest at 4%				\$ 90,000	
Special assessment bonds					
\$265,000 Special Assessment Bonds of 1993 due in annual installments of \$13,000 to \$14,000 through August 2013; interest at rates varying from 5.55% to 5.7%				122,000	
\$69,000 Special Assessment Bonds of 1998 due in annual installments of \$7,000 through April 2008; interest at 5%				21,000	
\$375,000 Special Assessment Bonds of 2003 due in annual installments of \$20,000 to \$35,000 through April 2018; interest at 3.6%				360,000	
Installment purchase agreements:					
\$480,000 Non-interest bearing note payable due in annual installments of \$48,000 plus fees; final payment due June 2011				192,000	
Notes payable to bank due in annual installments of approximately \$42,800 through August 2011; including interest at 3.85%				258,194	

City of Newaygo
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE H—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Governmental activities:—Continued

Other

Notes payable to Michigan State Housing Development Authority; due upon sale or breach of mortgage on or before five years subsequent to note date; non-interest bearing	\$ 250,000
	<u>1,293,194</u>
Compensated absences	40,519
	<u>\$ 1,333,713</u>

Business-type activities:

Revenue bonds:

\$385,000 General Obligation Sewer Bonds of 1990; final payment of \$40,000 due January 2006, interest at rates varying from 7.0%	\$ 40,000
\$1,304,000 Sanitary Sewer System Revenue Bonds; due in annual installments of \$12,000 to \$73,000 through August 2043, interest at 4.25%	1,293,000
\$285,000 Ambac insured bonds of 1989 due in annual installments of \$10,000 to \$15,000 through November 2013; interest at rates varying from 7.5% to 7.55%	110,000
\$425,000 Water Supply System Revenue Bonds of 1992 due in annual installments of \$25,000 to \$35,000 through September 2012; interest at rates varying from 6.25% to 6.4%	235,000
\$1,500,000 Water Supply System Revenue Bonds of 2003 due in annual installments of \$13,000 to \$51,000 through February 2043; interest at 4.25%	<u>1,436,000</u>
	3,114,000
Compensated absences	<u>19,425</u>
	<u>\$ 3,133,425</u>

Component units:

General obligation bonds:

\$190,000 Tax Increment Limited Obligation Bonds of 1990; final payment of \$21,000 due August 2005; interest at 7.1%	\$ 21,000
\$200,000 Tax Increment Limited Obligation Bonds Series A of 1992 due in annual installments of \$15,000 to \$20,000 through September 2007; interest at rates varying from 5.9% to 6.0%	55,000

City of Newaygo
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE H—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Component units:—Continued

General obligation bonds:—Continued

\$495,000 Tax Increment Limited Obligation Bonds Series B of 1992 due in annual installments of \$25,000 to \$45,000 through September 2012; interest at rates varying from 6.05% to 6.3%	\$ 280,000
\$7,300,000 Tax Increment Limited Obligation Bonds Series A 94 1994 due in annual installments of \$104,733 to \$453,234 through March 2024 plus interest; interest at varying rates determined by formula, currently 3.95%	5,640,471
\$950,000 Tax Increment Limited Obligation Bonds Series B of 1994 due in annual installments of \$45,000 to \$80,000 through October 2014; interest at rates varying from 5.9% to 6.5%	605,000
\$850,000 Tax Increment Limited Obligation Bonds Series C of 1994 due in annual installments of \$40,000 to \$70,000 through October 2014; interest at rates varying from 7.2% to 7.4%	545,000
\$520,000 Tax Increment Limited Obligation Bonds Series D of 1994 due in annual installments of \$25,000 to \$50,000 through October 2014; interest at rates varying from 7.5% to 7.625%	365,000
\$175,000 Tax Increment Limited Obligation Bonds of 1996 due in annual installments of \$21,000 to \$22,000 through October 2006; interest at rates varying from 5.9% to 6.0%	<u>43,000</u>
	<u>\$ 7,554,471</u>

The special assessment bonds and the first three component unit Limited Obligation Bonds are backed by the full faith and credit of the City.

The \$7,300,000 1994 Tax Increment Limited Obligation Bonds, Series A, which are held by the City of Newaygo Tax Increment Finance Authority, are guaranteed by Donnelly Corporation. If captured tax increment revenue associated with Donnelly Corporation's facility is insufficient to meet the bond's current payment requirements, Donnelly Corporation will cover any shortfalls. If Donnelly Corporation covers any shortfalls due to insufficient captured tax increment revenue, the component unit will repay to Donnelly Corporation any captured tax increment revenue in excess of current bond payment requirements in future years until Donnelly Corporation is reimbursed in full for all costs associated with its guarantee.

The City was in compliance in all material respects with all the revenue bond ordinances at June 30, 2005.

City of Newaygo
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE H—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Annual debt service requirements to maturity for debt outstanding as of June 30, 2005 follows:

Year ending June 30,	Governmental activities		Business-type activities		Component units	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 152,800	\$ 35,002	\$ 106,000	\$ 140,846	\$ 296,800	\$ 346,992
2007	134,142	30,988	67,000	135,626	317,335	330,165
2008	185,416	26,924	63,000	131,946	311,766	313,185
2009	285,780	22,786	75,000	128,035	323,880	296,250
2010	140,196	18,714	76,000	123,709	346,799	278,503
2011-2015	299,860	54,410	318,000	558,345	2,214,734	1,070,348
2016-2020	95,000	7,020	225,000	499,692	2,048,757	589,268
2021-2025	-	-	284,000	445,869	1,694,400	160,299
2026-2030	-	-	359,000	377,887	-	-
2031-2035	-	-	452,000	292,101	-	-
2036-2040	-	-	570,000	183,983	-	-
2041-2044	-	-	519,000	50,318	-	-
Total	<u>\$ 1,293,194</u>	<u>\$ 195,844</u>	<u>\$ 3,114,000</u>	<u>\$ 3,068,357</u>	<u>\$ 7,554,471</u>	<u>\$ 3,385,010</u>

NOTE I—OTHER INFORMATION

1. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City manages its liability and property risk by participating in Michigan Municipal Liability and Property Pool (MMLPP), a public entity risk pool providing property and liability coverage to its participating members. The City pays an annual premium to MMLPP for its insurance coverage. The MMLPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Fund (MMWCF), a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to MMWCF for its workers' compensation coverage. The MMWCF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City carries commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

City of Newaygo
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE I—OTHER INFORMATION—Continued

2. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

3. Commitments

The City has various contract agreements for projects as of June 30, 2005 of approximately \$490,000. The majority of these costs are being financed by a federal grant.

4. Lease

The \$7,300,000 1994 Tax Increment Limited Obligation Bonds were issued to construct a manufacturing facility for Donnelly Corporation. All captured tax increment revenues associated with this facility are to be used to repay the bonds issued to construct the facility. The Tax Increment Finance Authority retains ownership of the facility and leases the facility for \$1 per year to Donnelly Corporation for thirty years or until the bonds associated with its construction are retired. Donnelly Corporation is responsible for all operating and maintenance costs. Donnelly Corporation has an option to purchase the facility, upon retirement of the bond issue, for \$1.

NOTE J—PENSION PLANS

1. Defined Contribution Plans

The City provides pension benefits for all of its full-time employees through two money purchase defined contribution plans. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Salaried and hourly employees who have attained the age of 18, have completed ninety days of service and are not covered by a collective bargaining agreement, shall be eligible to participate in the plan. The City has one plan for salaried employees and one plan for hourly employees. Each plan requires the City to contribute an amount equal to 8 percent of the employee's annual compensation each plan year and employees are required to contribute 2 percent of their annual compensation. Salaried employees are immediately vested in the City's contribution and the hourly employees are 20 percent vested in the City contributions and earnings allocated to the employee account for each year of service. Any forfeitures are reallocated to participants with the regular contribution. Plan provisions and contribution requirements are established and may be amended by the City Council.

For fiscal year 2005, the City's total contribution to both defined contribution plans was \$49,681, and the employee contributions were \$12,400.

City of Newaygo
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE J—PENSION PLANS—Continued

2. Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time City employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

The Plan has created a trust for the exclusive benefit of the Plan's participants and beneficiaries under rules provided in Internal Revenue Code Section 401(f).

NOTE K—ECONOMIC DEPENDENCY

State of Michigan shared revenues represent 19 percent of General Fund revenues.

The City's General Fund property tax revenue growth is limited due to the TIFA and LDFA, which capture property tax value increases. The General Fund's property tax value captured by the TIFA and LDFA is in excess of 90 percent of the City's property tax value base. Property tax revenues represent approximately 30 percent of the General Fund's revenues.

NOTE L—EQUITY RESTATEMENT

The primary government capital assets were restated due to the effect of the addition of River Front Park which was not included in prior years.

The Tax Increment Finance Authority's net assets (deficit) were restated due to the effect of an additional due to other governmental units that was not properly recorded.

The Newaygo Carnegie Library's net assets were restated due to the effect of an adjustment to accumulated depreciation related to the Library's collection.

		<u>Component unit</u>	
		<u>Tax</u>	
	<u>Primary</u>	<u>Increment</u>	<u>Newaygo</u>
	<u>government</u>	<u>Finance</u>	<u>Carnegie</u>
		<u>Authority</u>	<u>Library</u>
Net assets (deficit) at July 1, 2005	\$ 5,782,671	\$(2,744,654)	\$ 375,153
Capital assets, net	719,118	-	(153,943)
Due to other governmental units	<u>-</u>	<u>(132,828)</u>	<u>-</u>
Net assets (deficit) at July 1, 2005, restated	<u>\$ 6,501,789</u>	<u>\$(2,877,482)</u>	<u>\$ 221,210</u>

REQUIRED SUPPLEMENTAL INFORMATION

City of Newaygo
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended June 30, 2005

	Budgeted amounts			Variance with final budget- Positive (negative)
	Original	Final	Actual	
REVENUE				
Property taxes	\$ 269,800	\$ 269,800	\$ 269,801	\$ 1
Licenses and permits	14,400	14,400	19,872	5,472
Intergovernmental revenues				
Federal	17,000	17,000	29,143	12,143
State	191,100	191,100	171,241	(19,859)
Local	170,200	170,200	171,913	1,713
Charges for services	162,100	162,100	179,667	17,567
Fines and forfeitures	12,000	12,000	16,382	4,382
Investment earnings	3,500	3,500	3,513	13
Other	23,200	23,200	48,433	25,233
Total revenues	863,300	863,300	909,965	46,665
EXPENDITURES				
Current				
General government				
City Council	16,730	16,730	15,324	1,406
City manager	52,856	52,856	50,774	2,082
Elections	2,600	3,900	3,843	57
Board of review	1,200	1,200	1,108	92
Clerk	33,842	35,000	32,752	2,248
Treasurer	36,275	38,500	36,511	1,989
Assessor	15,500	15,550	16,780	(1,230)
Attorney	27,000	29,000	28,638	362
City offices	63,819	63,819	56,656	7,163
Cemetery	42,850	42,850	33,338	9,512
Public safety				
Law enforcement	304,509	321,800	336,750	(14,950)
Public works	150,629	180,250	177,905	2,345
Community and economic development				
Planning	800	1,200	1,113	87
Culture and recreation				
Parks	56,461	68,000	67,710	290
Other governmental functions	39,300	39,300	38,172	1,128
Capital outlay	10,430	10,430	7,669	2,761
Total expenditures	854,801	920,385	905,043	15,342
Excess (deficiency) of revenues over expenditures	8,499	(57,085)	4,922	62,007
OTHER FINANCING USES				
Transfers out	(4,000)	(4,000)	(836)	3,164
Net change in fund balance	\$ 4,499	\$ (61,085)	4,086	\$ 65,171
Fund balance at July 1, 2004			217,502	
Fund balance at June 30, 2005			\$ 221,588	

OTHER SUPPLEMENTAL INFORMATION

City of Newaygo
BALANCE SHEET
Other Governmental Funds
June 30, 2005

		Special Revenue Funds				Capital Projects Funds		Debt Service Funds		
	Total other governmental funds	Major Streets	Local Streets	MSHDA	Principal Shopping District	Riverfront Park Development	DPW Building Construction	Mason Dr. Special Assessment	Barton/Div Special Assessment	City Hall
ASSETS										
Cash and investments	\$ 271,670	\$ 106,766	\$ 13,126	\$ 45,158	\$ 20,035	\$ 33,607	\$ -	\$ 51,742	\$ 1,236	\$ -
Special assessments receivable	95,452	-	-	-	-	-	-	78,113	17,339	-
Due from other funds	4,495	4,495	-	-	-	-	-	-	-	-
Due from other governmental units	66,254	20,281	7,136	38,837	-	-	-	-	-	-
Total assets	<u>\$ 437,871</u>	<u>\$ 131,542</u>	<u>\$ 20,262</u>	<u>\$ 83,995</u>	<u>\$ 20,035</u>	<u>\$ 33,607</u>	<u>\$ -</u>	<u>\$ 129,855</u>	<u>\$ 18,575</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES										
Liabilities										
Accounts payable	\$ 77,591	\$ 43,567	\$ 100	\$ 32,675	\$ 709	\$ 540	\$ -	\$ -	\$ -	\$ -
Due to other funds	19,326	-	-	-	19,326	-	-	-	-	-
Deferred revenue	<u>140,996</u>	<u>-</u>	<u>-</u>	<u>51,320</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>78,113</u>	<u>11,563</u>	<u>-</u>
Total liabilities	237,913	43,567	100	83,995	20,035	540	-	78,113	11,563	-
Fund balances										
Reserved for:										
Debt service	58,754	-	-	-	-	-	-	51,742	7,012	-
Capital projects	33,067	-	-	-	-	33,067	-	-	-	-
Unreserved										
Special revenue funds	<u>108,137</u>	<u>87,975</u>	<u>20,162</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>199,958</u>	<u>87,975</u>	<u>20,162</u>	<u>-</u>	<u>-</u>	<u>33,067</u>	<u>-</u>	<u>51,742</u>	<u>7,012</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 437,871</u>	<u>\$ 131,542</u>	<u>\$ 20,262</u>	<u>\$ 83,995</u>	<u>\$ 20,035</u>	<u>\$ 33,607</u>	<u>\$ -</u>	<u>\$ 129,855</u>	<u>\$ 18,575</u>	<u>\$ -</u>

City of Newaygo
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended June 30, 2005

	Total other governmental funds	Special Revenue Funds				Capital Projects Funds		Debt Service Funds		
		Major Streets	Local Streets	MSHDA	Principal Shopping District	Riverfront Park Development	DPW Building Construction	Mason Dr. Special Assessment	Barton/Div Special Assessment	City Hall
REVENUES										
Intergovernmental revenues										
Federal	\$ 38,837	\$ -	\$ -	\$ 38,837	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State	169,540	125,406	44,134	-	-	-	-	-	-	-
Local	34,046	-	-	34,046	-	-	-	-	-	-
Charges for services	76,561	193	-	-	26,448	-	-	-	-	49,920
Investment earnings	10,767	2,219	430	-	-	826	-	6,685	607	-
Other	17,086	-	-	-	-	-	-	10,442	6,644	-
Total revenues	346,837	127,818	44,564	72,883	26,448	826	-	17,127	7,251	49,920
EXPENDITURES										
Current										
Public works	237,297	152,671	58,178	-	26,448	-	-	-	-	-
Community and economic development	73,077	-	-	73,077	-	-	-	-	-	-
Culture and recreation	33,626	-	-	-	-	33,626	-	-	-	-
Debt service										
Principal	68,000	-	-	-	-	-	-	13,000	7,000	48,000
Interest and fees	11,126	-	-	-	-	-	-	7,506	1,700	1,920
Capital outlay	90,836	-	-	-	-	-	90,836	-	-	-
Total expenditures	513,962	152,671	58,178	73,077	26,448	33,626	90,836	20,506	8,700	49,920
Excess of revenues over (under) expenditures	(167,125)	(24,853)	(13,614)	(194)	-	(32,800)	(90,836)	(3,379)	(1,449)	-
OTHER FINANCING SOURCES (USES)										
Proceeds from long-term debt	90,000	-	-	-	-	-	90,000	-	-	-
Transfers in	10,836	-	10,000	-	-	-	836	-	-	-
Transfers out	(10,000)	(10,000)	-	-	-	-	-	-	-	-
Total other financing sources (uses)	90,836	(10,000)	10,000	-	-	-	90,836	-	-	-
Net change in fund balances	(76,289)	(34,853)	(3,614)	(194)	-	(32,800)	-	(3,379)	(1,449)	-
Fund balances at July 1, 2004	276,247	122,828	23,776	194	-	65,867	-	55,121	8,461	-
Fund balances at June 30, 2005	<u>\$ 199,958</u>	<u>\$ 87,975</u>	<u>\$ 20,162</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,067</u>	<u>\$ -</u>	<u>\$ 51,742</u>	<u>\$ 7,012</u>	<u>\$ -</u>

City of Newaygo
COMBINING STATEMENT OF NET ASSETS
Internal Service Funds
June 30, 2005

ASSETS

	Building Authority	Equipment Pool	Total
CURRENT ASSETS			
Cash and investments	\$ -	\$ 19,112	\$ 19,112
NONCURRENT ASSETS			
Capital assets			
Buildings and improvements	401,888	-	401,888
Vehicles and equipment	-	634,738	634,738
Less accumulated depreciation	<u>(181,699)</u>	<u>(318,745)</u>	<u>(500,444)</u>
Total noncurrent assets	<u>220,189</u>	<u>315,993</u>	<u>536,182</u>
Total assets	220,189	335,105	555,294

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES			
Accounts payable	-	2,327	2,327
Accrued liabilities	-	8,300	8,300
Bonds, capital leases and contracts, due within one year	<u>-</u>	<u>32,800</u>	<u>32,800</u>
Total current liabilities	-	43,427	43,427
NONCURRENT LIABILITIES			
Bonds, capital leases and contracts, less amounts due within one year	<u>-</u>	<u>225,394</u>	<u>225,394</u>
Total liabilities	<u>-</u>	<u>268,821</u>	<u>268,821</u>
NET ASSETS			
Invested in capital assets, net of related debt	220,189	57,799	277,988
Unrestricted	<u>-</u>	<u>8,485</u>	<u>8,485</u>
Total net assets	<u>\$ 220,189</u>	<u>\$ 66,284</u>	<u>\$ 286,473</u>

City of Newaygo
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Internal Service Funds
For the year ended June 30, 2005

	<u>Building Authority</u>	<u>Equipment Pool</u>	<u>Total</u>
REVENUES			
Charges for services	\$ 31,343	\$ 190,391	\$ 221,734
OPERATING EXPENSES			
Operations	-	129,764	129,764
Depreciation	<u>13,396</u>	<u>64,992</u>	<u>78,388</u>
Total operating expenses	<u>13,396</u>	<u>194,756</u>	<u>208,152</u>
Operating income (loss)	17,947	(4,365)	13,582
NONOPERATING EXPENSES			
Interest expense	<u>(1,343)</u>	<u>(7,187)</u>	<u>(8,530)</u>
Income (loss) before gain on sale	16,604	(11,552)	5,052
Gain on sale of capital assets	<u>-</u>	<u>32,232</u>	<u>32,232</u>
Change in net assets	16,604	20,680	37,284
Net assets at July 1, 2004	<u>203,585</u>	<u>45,604</u>	<u>249,189</u>
Net assets at June 30, 2005	<u><u>\$ 220,189</u></u>	<u><u>\$ 66,284</u></u>	<u><u>\$ 286,473</u></u>

City of Newaygo
COMBINING STATEMENT OF CASH FLOWS
Internal Service Funds
For the year ended June 30, 2005

	Building Authority	Equipment Pool	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from interfund services provided	\$ 31,343	\$ 167,407	\$ 198,750
Payments to suppliers	-	(115,192)	(115,192)
Payments to employees	-	(13,002)	(13,002)
Internal activity—payments to other funds	-	-	-
Claims paid to outsiders	-	-	-
Other receipts	-	22,984	22,984
Net cash provided by operating activities	31,343	62,197	93,540
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating subsidies and transfers to other funds	-	(33,608)	(33,608)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from capital debt	-	166,949	166,949
Purchases of capital assets	-	(181,917)	(181,917)
Principal and interest paid on capital debt	(31,343)	(39,502)	(70,845)
Proceeds from sale of capital assets	-	44,993	44,993
Net cash used for capital and related financing activities	(31,343)	(9,477)	(40,820)
Net increase in cash and investments	-	19,112	19,112
Cash and investments at July 1, 2004	-	-	-
Cash and investments at June 30, 2005	\$ -	\$ 19,112	\$ 19,112
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	\$ 17,947	\$ (4,365)	\$ 13,582
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation expense	13,396	64,992	78,388
Change in assets and liabilities			
Receivables, net	-	-	-
Inventories	-	-	-
Accounts and other payables	-	1,570	1,570
Accrued liabilities	-	-	-
Net cash provided by operating activities	\$ 31,343	\$ 62,197	\$ 93,540

City of Newaygo
COMBINING STATEMENT OF ASSETS AND LIABILITIES
 Agency Funds
 June 30, 2005

	<u>Total agency funds</u>	<u>Tax Collection</u>	<u>Museum</u>	<u>Escrow</u>	<u>Historic Clock Tower</u>	<u>Arts and Mural</u>
ASSETS						
Cash and investments	\$ 82,148	\$ 12,326	\$ 40	\$ 47	\$ 55,154	\$ 14,581
Total assets	<u>\$ 82,148</u>	<u>\$ 12,326</u>	<u>\$ 40</u>	<u>\$ 47</u>	<u>\$ 55,154</u>	<u>\$ 14,581</u>
LIABILITIES						
Due to other governmental units	\$ 12,326	\$ 12,326	\$ -	\$ -	\$ -	\$ -
Deposits held for others	<u>69,822</u>	<u>-</u>	<u>40</u>	<u>47</u>	<u>55,154</u>	<u>14,581</u>
Total liabilities	<u>\$ 82,148</u>	<u>\$ 12,326</u>	<u>\$ 40</u>	<u>\$ 47</u>	<u>\$ 55,154</u>	<u>\$ 14,581</u>

City of Newaygo
**SINGLE AUDIT OF FEDERAL
FINANCIAL ASSISTANCE PROGRAMS**

Financial Report and
Independent Auditors' Reports

June 30, 2005

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BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

November 5, 2005

City Council
City of Newaygo
Newaygo, Michigan

We have audited the financial statements of the City of Newaygo as of and for the year ended June 30, 2005 and have issued our report thereon dated November 5, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Newaygo's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Newaygo's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described as Findings 1-5 in Part B of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

City Council
November 5, 2005
Page 2

Compliance

As part of obtaining reasonable assurance about whether the City of Newaygo's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

November 5, 2005

City Council
City of Newaygo
Newaygo, Michigan

Compliance

We have audited the compliance of the City of Newaygo with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The City of Newaygo's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Newaygo's management. Our responsibility is to express an opinion on the City of Newaygo's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Newaygo's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Newaygo's compliance with those requirements.

In our opinion, the City of Newaygo complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

City Council
November 5, 2005
Page 2

Internal Control Over Compliance

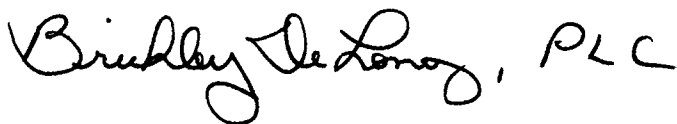
The management of the City of Newaygo is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Newaygo's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the City of Newaygo as of and for the year ended June 30, 2005 and have issued our report thereon dated November 5, 2005. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

City of Newaygo
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2005

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2004	Cash or payments in kind received (cash basis)	Amount of grant expenditures	Accrued (deferred) revenue June 30, 2005	Note
<i>U.S. Department of Agriculture</i>							
Direct programs							
Water and Waste Disposal Systems for Rural Communities	10.760						
Waste Disposal System Improvements							
Grant		\$ 2,800,000	\$ 399,200	\$ 2,267,300	\$ 2,014,151	\$ 146,051	
Water System Improvements							
Bond		<u>1,500,000</u>	<u>-</u>	<u>401,000</u>	<u>401,000</u>	<u>-</u>	2
		4,300,000	399,200	2,668,300	2,415,151	146,051	
Passed through Great Lakes Energy Cooperative							
Rural Economic Development Loan and Grant Program	10.854	<u>480,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	3
Total U.S. Department of Agriculture		4,780,000	399,200	2,668,300	2,415,151	146,051	
<i>U.S. Department of Housing and Urban Development</i>							
Community Development Block Grant/State's Program	14.228						
Passed through Michigan Strategic Fund							
MSC 202005-EDIG		1,016,558	129,512	413,324	283,812	-	
Passed through Michigan State Housing Development Authority							
MSC-2004-1327-MDC		<u>304,800</u>	<u>-</u>	<u>-</u>	<u>38,837</u>	<u>38,837</u>	
Total U.S. Department of Housing and Urban Development		1,321,358	129,512	413,324	322,649	38,837	
<i>U.S. Department of Justice</i>							
Passed through Michigan Department of Community Health							
Local Law Enforcement Block Grant Program	16.592						
2004-LB-BX-0863		6,758	-	6,758	6,758	-	
Direct program							
Public Safety Partnership and Community Policing Grant	16.710						
2002UMWX0044		<u>75,000</u>	<u>5,522</u>	<u>22,159</u>	<u>22,385</u>	<u>5,748</u>	
Total U.S. Department of Justice		81,758	5,522	28,917	29,143	5,748	

City of Newaygo
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2005

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2004	Cash or payments in kind received (cash basis)	Amount of grant expenditures	Accrued (deferred) revenue June 30, 2005	Note
<i>U.S. Department of Transportation, Federal Highway Administration</i>							
Passed through Michigan Department of Transportation							
Highway Planning and Construction	20.205						
Proj STP0462 (303)		\$ 224,702	\$ 81,500	\$ 224,702	\$ 143,202	\$ -	
TOTAL FEDERAL ASSISTANCE		\$ 6,407,818	\$ 615,734	\$ 3,335,243	\$ 2,910,145	\$ 190,636	

- Notes:**
1. See the financial statements footnotes for accounting policies used in preparing this schedule.
 2. The City of Newaygo received a federal loan in 2004 in the amount of \$1,500,000. As of June 30, 2005, the City had drawndown only \$1,449,000 of that amount. The outstanding balance at June 30, 2005 is \$1,436,000.
 3. The City of Newaygo received a federal loan in 1999 in the amount of \$480,000. The outstanding balance at June 30, 2005 is \$192,000.

City of Newaygo
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2005

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the City of Newaygo.
2. **Six (6)** reportable conditions disclosed during the audit of the financial statements are reported in the Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and are reported in Part B of this schedule. These reportable conditions are not reported as material weaknesses.
3. **No** instances of noncompliance material to the financial statements of the City of Newaygo were disclosed during the audit as reported in Part B of this schedule.
4. There were **no** reportable conditions disclosed during the audit of the major federal award programs as reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 and as reported in Parts B and C of this schedule.
5. The auditors' report on compliance for the major federal award programs for the City of Newaygo expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as a major programs were:

<u>Name</u>	<u>CFDA Number</u>
<i>U.S. Department of Agriculture</i> Water and Waste Disposal Systems for Rural Communities	10.760
<i>U.S. Department of Transportation, Federal Highway Administration</i> Highway Planning and Construction	20.205

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City of Newaygo was not determined to be a low-risk auditee.

City of Newaygo
SCHEDULE OF FINDINGS AND QUESTIONED COSTS—CONTINUED
Year ended June 30, 2005

B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	Questioned Costs
COMPLIANCE	
NONE	None
REPORTABLE CONDITIONS	
Fiscal 2005 Finding No. 1: Journal Entry Review and Approval Procedures	
<i>Condition:</i> General ledger journal entries do not have documented review and approval.	
<i>Effect:</i> Errors or misappropriation of funds could go undetected.	None
<i>Recommendation:</i> All journal entries should have documented review and approval by an appropriate City official.	
Fiscal 2005 Finding No. 2: Bank Reconciliation Procedures	
<i>Condition:</i> Bank accounts are not reconciled on a timely basis.	
<i>Effect:</i> Errors or the misappropriation of funds could go undetected.	None
<i>Recommendation:</i> Bank reconciliations should be prepared and reconciled to the general ledger on a timely basis.	
Fiscal 2005 Finding No. 3: Tax Collection Fund Remittance Procedures	
<i>Condition:</i> Property tax collections are not being remitted to other governmental units within the time required by State of Michigan regulations.	
<i>Effect:</i> The City is not in compliance with State of Michigan regulations.	None
<i>Recommendation:</i> The Tax Collection Fund should distribute all funds owed other governmental units on a timely basis.	

City of Newaygo
SCHEDULE OF FINDINGS AND QUESTIONED COSTS—CONTINUED
Year ended June 30, 2005

**B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS,
WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE
WITH GAGAS**

Questioned
Costs

REPORTABLE CONDITIONS—Continued

Fiscal 2005 Finding No. 4: Library Collection Capitalization Procedures

Condition: The collection is maintained on a computer system, but individual items are not maintained at cost.

Effect: The dollar value of the collection is incorrectly maintained.

None

Recommendation: Additions to the Library collection should be capitalized at cost if purchased or estimated fair market value if donated.

Fiscal 2005 Finding No. 5: Library Accounting Security Procedures

Condition: A single password is required for access to all Library computer software programs. Also, the individual responsible for the accounting was the administrative user which has full program authority.

Effect: Open access to computer software could enable unauthorized use/manipulation of the computer system.

None

Recommendation: The Library should strengthen security controls within its computerized accounting program by utilizing passwords and other program restrictions.

Fiscal 2005 Finding No. 6: Budgeting Procedures

Condition: One special revenue fund did not have an approved budget. Michigan Public Act 621 requires budgets for all special revenue funds.

Effect: Expenditures could be made without proper authorization.

None

Recommendation: Budgets should be adopted for all funds in accordance with Michigan Public Act 621.

City of Newaygo
SCHEDULE OF FINDINGS AND QUESTIONED COSTS—CONTINUED
Year ended June 30, 2005

**C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL
AWARD PROGRAMS AUDIT**

COMPLIANCE

NONE

None

REPORTABLE CONDITIONS

NONE

None

SUPPLEMENTAL INFORMATION

BRICKLEY DELONG

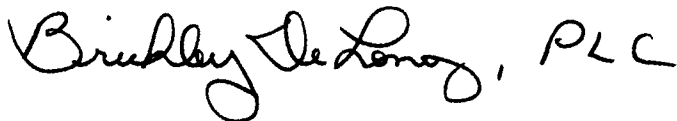
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

November 5, 2005

City Council
City of Newaygo
Newaygo, Michigan

We have audited the financial statements of the City of Newaygo as of and for the year ended June 30, 2005 and have issued our report thereon dated November 5, 2005. Our audit was made primarily for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information presented on page 15 is provided for purposes of additional analysis and is not a required part of the financial statements or the accompanying Schedule of Expenditures of Federal Awards. Such supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements of the City of Newaygo and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in black ink that reads "Brickley DeLong, PLC". The signature is written in a cursive, flowing style.

City of Newaygo
SCHEDULE OF RECONCILIATION OF REVENUES FROM FEDERAL SOURCES
PER GOVERNMENTAL FUNDS FINANCIAL STATEMENTS AND EXPENDITURES PER
SINGLE AUDIT REPORT SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2005

Revenues from federal sources per June 30, 2005

Governmental Funds financial statements

General Fund	\$ 29,143
MDOT Enhancement Fund	143,202
CDBG Fund	283,812
Other governmental funds	38,837
	<u>494,994</u>

Federal revenues recorded as capital contributions per June 30, 2005

Proprietary Funds financial statements

Sewer Fund	2,014,151
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Drawdowns on federal loan funds by Water Fund

401,000

Federal assistance expenditures and operating transfers out per

Schedule of Expenditures of Federal Awards (page 8)

\$ 2,910,145

CLIENT DOCUMENTS

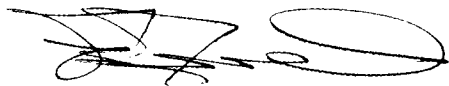
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

November 5, 2005

U.S. Department of Agriculture
Washington, D.C.

The City of Newaygo respectfully advises you that there were ***no*** audit findings or questioned costs reported in our single audit report, dated September 21, 2004, for the year ended June 30, 2004.

Sincerely,

A handwritten signature in black ink, appearing to read 'R. Blachford', with a large, stylized loop at the end.

Richard Blachford
City Manager

CORRECTIVE ACTION PLAN

November 5, 2005

U.S. Department of Agriculture
Washington, D.C.

The City of Newaygo respectfully submits the following Corrective Action Plan for the year ended June 30, 2005.

Name and address of independent public accounting firm:

Brickley DeLong, PLC
P.O. Box 999
Muskegon, Michigan 49443

Audit period: June 30, 2005

The findings from the Schedule of Findings and Questioned Costs for the year ended June 30, 2005 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section A of the schedule, Summary of Auditors' Results, does not include findings and is not addressed.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

There were *no* compliance findings.

REPORTABLE CONDITIONS

Fiscal 2005 Finding No. 1: Journal Entry Review and Approval Procedures

Recommendation: All journal entries should have documented review and approval by an appropriate City official.

Action Taken: During the year ending June 30, 2006, this recommendation will be reviewed for possible implementation.

B. FINDINGS—FINANCIAL STATEMENT AUDIT—Continued

REPORTABLE CONDITIONS—Continued

Fiscal 2005 Finding No. 2: Bank Reconciliation Procedures

Recommendation: Bank reconciliations should be prepared and reconciled to the general ledger on a timely basis.

Action Taken: During the year ending June 30, 2006, this recommendation will be reviewed for possible implementation.

Fiscal 2005 Finding No. 3: Tax Collection Fund Remittance Procedures

Recommendation: The Tax Collection Fund should distribute all funds owed other governmental units on a timely basis.

Action Taken: During the year ending June 30, 2006, this recommendation will be reviewed for possible implementation.

Fiscal 2005 Finding No. 4: Library Collection Capitalization Procedures

Recommendation: Additions to the Library collection should be capitalized at cost if purchased or estimated fair market value if donated.

Action Taken: During the year ending June 30, 2006, this recommendation will be reviewed for possible implementation.

Fiscal 2005 Finding No. 5: Library Accounting Security Procedures

Recommendation: The Library should strengthen security controls within its computerized accounting program by utilizing passwords and other program restrictions.

Action Taken: During the year ending June 30, 2006, this recommendation will be reviewed for possible implementation.

B. FINDINGS—FINANCIAL STATEMENT AUDIT—Continued

REPORTABLE CONDITIONS—Continued

Fiscal 2005 Finding No. 6: Budgeting Procedures

Recommendation: Budgets should be adopted for all funds in accordance with Michigan Public Act 621.

Action Taken: During the year ending June 30, 2006, budgets will be adopted for all funds in accordance with Michigan Public Act 621.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

COMPLIANCE

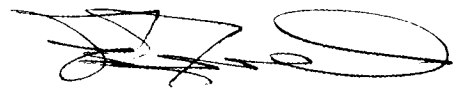
There were *no* compliance findings in relation to major federal award programs.

REPORTABLE CONDITIONS

There were *no* reportable conditions in relation to major federal award programs.

If the U.S. Department of Agriculture has questions regarding this plan, please call Richard Blachford at (231) 652-1657.

Sincerely,

A handwritten signature in black ink, appearing to read 'Richard Blachford', with a large, stylized flourish at the end.

Richard Blachford
City Manager

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

November 5, 2005

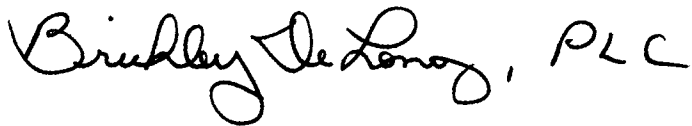
City Council
City of Newaygo
Newaygo, Michigan

In planning and performing our audit of the financial statements of the City of Newaygo for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the City of Newaygo's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. We have attached a summary of such reportable conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended solely for the information of the City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Brickley DeLong, PLC". The signature is written in a cursive, flowing style.

REPORTABLE CONDITIONS

General

Recommendation 1: All journal entries should have documented review and approval by an appropriate City official.

During our testing, we noted that documented proper approval of journal entries did not exist for all journal entries.

The maintenance of files with documented review and approval of all journal entries would reduce the possibility of an inaccurate journal entry being made.

Cash

Recommendation 2: Bank reconciliations should be prepared and reconciled to the general ledger on a timely basis.

During our testing, we noted that monthly bank balances were not reconciled to the general ledger on a timely basis. Errors in recording certain cash transactions, which would have been detected during the year by the application of standard bank reconciliation procedures, were not detected until year end when such reconciliation procedures were eventually performed.

Bank reconciliations serve as a control procedure to ensure that general ledger cash account activity is in agreement with bank statement activity for the same period. The timely performance of effective bank reconciliation procedures would also ensure the timely detection of errors committed by bank and/or accounting personnel in the recording and reporting of cash transactions.

Tax Collection Fund

Recommendation 3: The Tax Collection Fund should distribute all funds owed other governmental units on a timely basis.

During our audit, we noted that the Tax Collection Fund had a significant bank balance outstanding at year end. The General Property Tax Act of the State of Michigan requires that the City distribute property tax collections to other governmental units for which it collects within 10 business days of the first and fifteenth day of each month. In addition, the City is required to make all distributions by April 1 of each year.

The timely distribution of funds collected by the Tax Collection Fund would ensure compliance with the General Property Tax Act of the State of Michigan.

REPORTABLE CONDITIONS—CONTINUED

Library

Recommendation 4: Additions to the Library collection should be capitalized at cost if purchased or estimated fair market value if donated.

During our testing, we noted that the Library collection is maintained on a computerized system with cost shown as the cover price of the book if the item was purchased and not shown at all if it was donated. We also noted that items purchased by the library are usually purchased at a discount to the cover price.

We recommend the library establish procedures to ensure that additions to its collection are recorded at actual cost if purchased or estimated fair market value if donated. These procedures would help ensure that the Library has an accurate value of the costs of the collection.

Recommendation 5: The Library should strengthen security controls within surrounding its computerized accounting program by utilizing passwords and other program restrictions.

During our testing, we noted that a single password is required in order to gain access to all Library computer software programs. In addition, the individual responsible for the accounting was the administrative user which has full program authority. Open access to computer software could enable unauthorized use/manipulation of the computer system.

The internal controls surrounding the computer program could be improved by establishing a separate user name and password for the individual responsible for maintenance of the accounting records. The program should also be set up to utilize the accounting systems audit trail. This audit trail would track all changes made to transactions. In addition a separate administrative user should be established for full program authority. This would enhance the internal controls and help ensure that software security settings are effective.

Budgets

Recommendation 6: Budgets for all special revenue funds should be adopted by the City Council.

During our audit, we noted one special revenue fund did not have an approved budget. Michigan Public Act 621 requires budgets for all special revenue funds.

The adoption of budgets for all required funds would ensure compliance with Michigan Public Act 621.